



# County of Los Angeles

## CHIEF ADMINISTRATIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012  
(213) 974-1101  
<http://cao.co.la.ca.us>

DAVID E. JANSSEN  
Chief Administrative Officer

May 14, 2003

To: Supervisor Yvonne Braithwaite Burke, Chair  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: David E. Janssen  
Chief Administrative Officer

Board of Supervisors  
GLORIA MOLINA  
First District

YVONNE BRATHWAITE BURKE  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

### GOVERNOR RELEASES MAY REVISION OF JANUARY BUDGET

Today Governor Davis released proposed revisions to his January Budget proposal which sought to close a \$34.6 billion budget gap for the last six months of the current year and the 2003-04 budget year. In announcing his revisions, the Governor noted that the budget gap has grown by \$3.6 billion to \$38.2 billion, primarily due to higher than estimated expenditures and the decision to cancel a tobacco securitization bond sale which would have raised \$2 billion. While revenues are down approximately \$300 million in the current year, collections in the key month of April were higher than estimated and projections for the budget year have been increased by almost a billion dollars over the January forecast. Finally, as a result of earlier budget actions by the Legislature in March and April, some \$7 billion in budget savings had already been achieved, all of which are reflected in the Governor's new numbers.

This report focuses on highlights of the May Revision with emphasis on items that impact the County. Earlier budget actions by the Legislature included very few of the Governor's recommended budget cuts that impacted the County. Our preliminary analysis indicates a potential County budget impact between \$145 million and \$271 million, depending upon how soon the vehicle license fee (VLF) is increased, compared to a potential loss of just under \$600 million for the January budget. Please see Attachment I for specifics.

### ***Closing the Budget Gap***

In his January Budget, the Governor proposed to close a \$34.6 billion budget gap through \$20.7 billion in cuts and savings, \$8.3 billion in tax increases for realignment, \$5.7 billion from transfers and other revenues (including Indian gaming), fund shifts, and borrowing.

The May Revision proposes to close the \$38.2 billion gap through a modified approach that relies more heavily on borrowing and less on cuts, as well as on a different mix of tax increases. The major elements include:

- \$18.9 billion in cuts and savings, including \$ 4.2 billion from allowing the VLF to increase;
- \$10.7 billion in loans to be repaid over 5 to 6 years from a temporary, dedicated half-cent sales tax increase;
- \$6.9 billion in fund shifts, transfers and loans; and
- \$1.734 billion in a scaled down realignment of programs financed by \$1.5 billion from the personal income tax and \$300 million from cigarette taxes (\$700 million in FY 2004-05).

Whereas the January Budget sought to solve the State's budget gap in the budget year, the May Revision relies upon a multi-year approach that only partially addresses the State's structural budget problem which projections indicate will be \$7.9 billion in FY 2004-05. As a result, the Administration is emphasizing the need for the Legislature to address structural issues in the balance of the session, including consideration of possible constitutional amendments for placement on the ballot next spring.

### ***Tax Proposals***

In place of the \$8.3 billion in taxes for realignment of programs proposed in January, the May Revision proposes three dedicated taxes outside the Proposition 98 guarantee:

- a temporary half-cent sales tax for deficit financing that will raise \$2.4 billion annually;
- a new personal income tax rate of 10.3 percent for program realignment that will yield \$1.5 billion in FY 2003-04; and
- a 23 cent increase in FY 2003-04 and 40 cent increase in FY 2004-05 in the tobacco excise tax that will yield \$267 million in FY 2003-04 and \$678 million in FY 2004-05.

In addition, the budget assumes that the VLF trigger will be pulled as a result of the State's inability to fund the VLF backfill. Depending upon when the trigger is pulled – there could be a two to three month delay after the trigger is pulled due to the public notice requirement – the VLF increase in the budget year would amount to an additional \$3 billion to \$4 billion tax increase. More importantly, during that period cities and counties would not receive any backfill from the State, resulting in a one-time loss of revenue of approximately \$335 million per month. The potential loss to the County would be \$63 million per month for both the regular and realignment backfill.

### ***Spending Restorations***

The May Revision restores almost \$2 billion in cuts proposed in the January budget reflecting the Governor's political and policy preferences. Major restorations include:

- \$700 million for K-12 education;
- \$304 million for Community Colleges;
- \$441 million to restore the 6.2 percent grant cut in SSI/SSP;
- \$107 million to restore 1931(b) Medi-Cal eligibility to 100 percent of the poverty level;
- \$69 million in Federal funds for reimbursable special education mental health services; and
- \$28 million to subsidize peace officer training.

### ***State-Local Program Realignment***

The May Revision scales back the January \$8.3 billion Realignment proposal to \$1.734 billion in programs to be financed by new revenues derived from a new 10.3 percent income tax bracket and an increase in the tobacco tax. The Administration is relying on a recent Attorney General's opinion that the proposed new revenues would not trigger a Proposition 98 share to education as long as they are dedicated and restricted to specific programs. The Administration indicates that it has not given up on additional realignment of programs but is responding to requests from the Legislature, counties and providers for additional time to consider a larger proposal.

The programs included in the revised proposal include: Children's System of Care (100%), Integrated Services for the Homeless (100%), Child Abuse Prevention, Intervention and Treatment (100%), Foster Care Grants (80%), and Administration (50%), Child Welfare Services (50%), Adult Protective Services (100%), CalWORKs Grants (30%), and CalWORKs Employment Services and Administration (30%).

The numbers in parenthesis indicate the new county-share-of-cost. As with the January proposal, there are few details on how the Realignment would work with respect to allocation formulas, any changes in local management rules, or program flexibility.

Significantly, the revised Realignment proposal does not contain many programs potentially problematic for counties because of lack of a local administrative infrastructure (e.g. Child Care) or volatility in caseloads and costs (e.g. In-Home Supportive Services). Programs taken out of the original Realignment proposal have been placed back into the overall State budget, with some such as Child Care and Adolescent Family Life Programs at reduced levels. Lastly, while the smaller set of programs in the revised Realignment proposal generally pose less overall risk to counties, the new revenues proposed are not likely to keep pace with program growth.

### **Health**

**DSH Administration Fee.** No increase is proposed beyond the current \$85 million.

**Trauma Care.** No funding is proposed for FY 2003-04.

**Continuous Eligibility for Children.** The May Revision includes \$486.6 million to provide continuous Medi-Cal eligibility for an estimated 471,500 children.

**1931(b) Medi-Cal.** The May Revision provides \$107.4 million to restore eligibility for the 1931(b) Medi-Cal program to 100 percent of the Federal Poverty Level.

**Express Lane Eligibility.** The May Revision proposes two expansions in Medi-Cal eligibility through "express lane eligibility." The first expansion provides \$3.5 million to enroll over 3,900 additional school-aged children into Medi-Cal if they are enrolled in free school lunch programs. The second expansion provides \$7.7 million to enroll over 5,900 parents and children into the Medi-Cal program if they are enrolled in the Food Stamp Program.

**Medi-Cal Accounting Change.** The May Revision includes one-time General Fund savings of \$930 million by changing accounting for the Medi-Cal program from an accrual basis to a cash basis.

**Medi-Cal Managed Care Capitation Rates.** The May Revision includes HIV/AIDS drugs in the Medi-Cal Managed Care Program.

**Managed Care for SSI/SSP Recipients.** The May Revision encourages the aged, blind and disabled population to voluntarily enroll in the Medi-Cal Managed Care Program, for a savings of \$4.8 million.

**Disease Management Program.** The May Revision provides \$756,000 to implement a Disease Management Program for Medi-Cal beneficiaries who have chronic health conditions.

**Public Health.** The May Revision includes a General Fund increase of \$10.9 million in the current year above the \$143.9 million in the Governor's Budget due to an increase in caseload and health care costs in the California Children's Services (CCS), Child Health and Disability Prevention, and Genetically Handicapped Persons programs. It includes a \$59.9 million General Fund increase in the budget year above the \$84.7 million in the Governor's Budget due to increased caseload and health care costs in CCS and the Genetically Handicapped Persons programs.

**AIDS Drug Assistance Program (ADAP).** The May Revision increases ADAP funding in FY 2003-04 by \$8.2 million due to additional reimbursements and Federal funds, and adjustments to co-payments proposed in the Governor's Budget, for total ADAP funding of \$195 million. The May Revision proposes to reduce co-payments from \$30, \$45, and \$50 per prescription to \$5, \$10, and \$15 respectively based on a sliding income scale tied to Federal poverty levels.

**Public Health Preparedness and Response.** The May Revision includes \$90.3 million (\$3.9 million General Fund) in new funding to address the onslaught of new pathogens and diseases, including Severe Acute Respiratory Syndrome and West Nile Virus, and the ongoing threat of a bioterrorist attack. It proposes the creation of a Public Health Response Team with the long-term goal of developing a comprehensive prevention and control program using all available local and State public health assets.

**Expanded Access to Primary Care and Adolescent Family Life Program.** The May Revision reduces Expanded Access to Primary Care by \$2.4 million, and the Adolescent Family Life Program by \$1.6 million, in lieu of realignment.

**Healthy Families Program.** The May Revision retains funding to facilitate enrollment of uninsured children into the Healthy Families Program (HFP) including \$3.7 million for two-months of HFP eligibility to ensure coverage during the transition to Medi-Cal, and \$3.1 million for additional caseload resulting from implementation of the Child Health and Disability Prevention Gateway Program.

**Drug Court Partnership Program.** The May Revision includes a \$3 million General Fund augmentation for the Drug Court Partnership Program to restore the annual funding level because the program demonstrated General Fund savings of \$10.8 million in FY 2002-03.

**Hospital Bioterrorism Preparedness Program.** The May Revision includes an increase of \$32.8 million in reimbursements to implement a Federal grant to prepare California hospitals and other healthcare organizations for a bioterrorism attack.

**Emergency Medical Services Authority (EMSA).** The May Revision includes \$10.8 million to restore the EMSA. The Administration reevaluated the Authority's effectiveness and believes it is better able to respond to medical emergencies, including terrorist events, as a stand-alone entity.

### **Mental Health**

**AB 3632.** The May Revision provides \$69 million in Federal Individuals with Disabilities Education Act Funds to cover reimbursement of mental health services provided to special education students. While the total may not cover 100 percent of the projected reimbursements, it will reduce, if not eliminate, the need for the County to backfill with discretionary funds.

**EPSDT.** The May Revision includes a \$4.6 million reduction to reflect a technical correction in expenditures for the Early and Periodic Screening, Diagnosis, and Treatment Program. However, there is no proposed reduction in EPSDT services.

**Mental Health Managed Care.** The May Revision includes a net increase of \$9.8 million in funding for the Mental Health Managed Care Program to reflect savings from the proposed 10 percent across-the-board reduction in FY 2003-04 and a reduction in Medi-Cal beneficiaries.

### **Social Services**

**Child Care.** The May Revision removes child care from the Governor's proposed realignment of programs but urges the Legislature to look at reforms in the program for implementation in FY 2004-05. Stage 3 Child Care has been restored and the California Department of Social Services will transfer an additional \$157 million in TANF funds for Stage 3 Child Care as one-time funding. Total Child Care funding in the May Revision includes \$1.867 billion for the restored programs, which represents a decrease of approximately \$384 million achieved through savings, fund shifts, and reforms.

The Administration continues to believe child care realignment could be a viable way to resolve a number of policy and fiscal concerns with the various child care programs, especially the growth in CalWORKs Stage 3.

**CalWORKs Grants.** The May Revision includes CalWORKs Grants within the modified realignment proposal and would increase the county share of cost from 2.5 percent to 30 percent. The realigned CalWORKs Grants costs total \$782 million. The June 2003 (3.74 %) and October 2003 (3.46 %) cost-of-living adjustments remain suspended and the implementation of Prospective Budgeting/Quarterly Reporting has been delayed.

**CalWORKs Employment Services and Administration.** Both CalWORKs Employment Services and Administration are included within the Governor's modified

realignment proposal, including a 30 percent share of cost for counties, which is lower than the 50 percent share of cost proposed in the Governor's Budget.

**CalWORKs Performance Incentives.** Consistent with the Governor's Budget, no funds are included in the May Revision for Performance Incentives for FY 2003-04.

**SSI/SSP.** The May Revision includes an increase of \$441.6 million General Fund in FY 2003-04 to restore the grant reduction proposed in the Governor's Budget, while retaining the proposal to suspend the State-only cost-of-living-adjustment.

**Workforce Investment Act Programs.** The May Revision includes a reduction of \$88.9 million in Federal Workforce Investment Act funds which support local assistance programs including adult employment and training, youth activities, and dislocated workers programs.

**Naturalization Services Program.** The May Revision fully restores \$1.3 million to the Naturalization Services Program which was proposed for elimination in the Governor's Mid-Year Spending Reduction Plan.

### **General Government**

**Reimbursable State Mandates.** In addition to proposing to continue the deferral of mandate payments, the May Revision proposes the suspension of 34 mandates and the repeal of one mandate – the public notice requirement under the Brown Act. By suspending mandates, the State is not obligated to ever make payment. The mandates to be suspended are listed in Attachment II. In addition, the Governor will propose trailer bill language to eliminate 27 of the 34 mandates in FY 2004-05.

**Undesignated Court Fees.** The May Revision proposes to cap the amount of the transfer at \$31 million and determine the allocation to counties by January 2004.

**Federal Child Support Penalty.** The May Revision does not assume that counties will pay a share of the penalty in the current year but does assume a 25 percent share in the budget year. The allocation formula has not been announced.

**Office of Emergency Services.** The Governor proposes restoring \$663,000 in local assistance from the General Fund for the Disaster Service Worker's Volunteer Program which provides workers' compensation coverage to registered disaster service worker volunteers.

**Department of Transportation.** The May Revision modifies the suspension of transfers from the sales tax on gasoline by transferring \$207 million from the General Fund to the Transportation Investment Fund, \$157 million of which is for Traffic Congestion Relief Fund projects. According to the Department of Public Works, this will

result in no additional loss of revenues for FY 2003-04. The Department previously reported a loss of \$18 million in FY 2003-04 for the maintenance and rehabilitation of County unincorporated roads and the loss of \$10 million for the local match for the remaining bridge seismic retrofit projects in the County.

**Public Library.** The May Revision restores the Transaction Based Reimbursements Program that had been eliminated in the January Budget but funds it by cutting the Public Library Foundation (PLF) budget by \$14.7 million. This fiscal year, the County Library received \$3.2 million in PLF monies. Under the May Revision, the Library would lose this \$3.2 million. However, the Library could apply for some of the remaining \$1 million in Foundation funds that will be distributed based upon need.

**California Arts Council.** The May Revision proposes to eliminate the State/Local Partnership program which would eliminate the \$30,000 in State funding currently received by the Arts Council for administration. Additional unspecified reductions are anticipated in the Arts in Education Program.

### **Public Safety**

**COPS and Juvenile Crime Prevention Programs.** The May Revision continues full funding for the Citizens Option for Public Safety and Juvenile Crime Prevention programs at \$232.6 million, and restores \$25.5 million for the Peace Officers' Training Fund to reimburse local law enforcement agencies for costs related to peace officer training.

**Spousal Abuse Prosecution Program.** The Governor proposes to restore \$3.2 million in funds for program staffing and local assistance grants to counties. According to the District Attorney's office, it receives \$225,000 from the State for this program.

### **Resources and Environmental Protection**

The May Revision does not change funding for resources or environmental protection programs that impact the County, with the minor exception of the Department of Water Resources Dam Safety Program. That program is reduced by \$4.7 million, to be offset by increased fees for State dam safety inspections. The Department of Public Works operates flood control dams that must be inspected by the State. The anticipated impact of this fee increase will be minimal.



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We will continue to keep you advised.

DEJ:GK  
MAL:JR:ib

#### Attachments

c:     Executive Officer, Board of Supervisors  
       County Counsel  
       Local 660  
       All Department Heads  
       Legislative Strategist  
       Coalition of County Unions  
       California Contract Cities Association  
       Independent Cities Association  
       League of California Cities  
       City Managers Associations

**ESTIMATED LOSS TO LOS ANGELES COUNTY  
FROM THE GOVERNOR'S BUDGET REDUCTIONS  
(DOLLARS IN MILLIONS)**

	<u>JANUARY FY 02-03</u>	<u>MAY FY 03-04</u>
Elimination of VLF General Government Backfill	\$ 472.0	\$ 63 - 189
Deferral of Mandate Reimbursement	60.8 *	40
Undesignated Fees: Shift to Courts	26.0	10.0 **
Public Works: Local Street and Road Fund AB 2928	18.0	0
Federal Child Support Penalty	10.4	10.4
Child Support Agency Allocation	10.6	10.6
Probation: Local Assistance for Training: Suspension	2.0	2.0
Probation: CYA Sliding Fee Increase	1.9	1.9
Worker's Compensation User Fee	1.7	1.7
Sheriff: Local Assistance for Training	1.5	0
District Attorney: Various Grants Eliminated	1.3	1.0
Public Library: Foundation Grant Reduction	1.6	3.2
Direct / Inter-Library Loan	.3	0
Community Development: ERAF Shift	.2	.2
Repeal of Open Meetings Mandate		.3
Trauma Care (Our Share of \$6.8M County-wide)	.5	.5
<b>TOTAL</b>	<b>\$ 598.6M</b>	<b>\$ 145-271M</b>

\* Reflects the Auditor's estimate of claims that will be filed for FY 2003-04. Actual claims filed in FY 2002-03 totaled \$61.1 million.

\*\* Estimate: Formula to be developed by January 2004.

This table represents the loss or deferral (in the case of Mandate Reimbursement) of State funds based upon the Governor's January Budget and his May Revision. It does not reflect the actual impact on the County or a department's budget which may be different because they assume a different level of State funding or may be able to offset some or all of the lost revenue.

### Mandates Proposed for Repeal or Suspension

[All of the mandates listed below have been proposed for suspension in the 2003-04 May Revision, except for the Open Meetings Act Notices mandate, which is proposed for repeal. The Administration intends to come forward with the statutory language necessary for repealing the other mandates for which repeal is recommended during the development of the 2004-05 Governor's Budget.]

#### Repeal

<b>Mandate</b>	<b>Departmental Budget</b>
Deaf Teletype Equipment	Office of Emergency Services
CPR Pocket Masks	Office of Emergency Services
Misdemeanors: Booking and Fingerprinting	Justice
Voter Registration Roll Purge	Secretary of State
Handicapped Voter Access Information	Secretary of State
Local Elections Consolidation	Secretary of State
Democratic Party Presidential Delegates	Secretary of State
Election Materials	Secretary of State
Victims' Statements (Minors)	Board of Corrections
Animal Adoption	Food and Agriculture
Elder Abuse, Law Enforcement Training	Peace Officer Standards and Training
Law Enforcement Sexual Harassment Training	Peace Officer Standards and Training
Personal Alarm Devices	Industrial Relations
Adult Felony Restitution	Victims Compensation and Government Claims Board
Property Tax-Family Transfers	Tax Relief
Senior Citizens' Mobile Home Property Tax Deferral	Tax Relief
Proration of Fines and Court Audits	Local Government Financing
Open Meetings Act Notices	Local Government Financing
Filipino Employee Surveys	Local Government Financing
Involuntary Lien Notices	Local Government Financing
Lis Pendens	Local Government Financing
SIDS Contacts by Local Health Officers	Health Services
SIDS Notices	Health Services
Guardianship/Conservatorship Filings	Developmental Services
Short-Doyle Case Management	Mental Health
Short-Doyle Audits	Mental Health
Residential Care Services	Mental Health

#### Suspend

Structural and Wildland Firefighter Safety Clothing and Equipment	Industrial Relations
Domestic Violence Information	Local Government Financing
Two Way Traffic Signals	Caltrans
Mineral Resource Policies	Conservation
Investment Reports	State Treasurer's Office
County Treasury Oversight Committees	State Treasurer's Office
Child Abuse Treatment Services Authorization and Case Management	Social Services